

Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00

PA-01 PRS-01 FEA-01 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-07 INT-05

L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-01 /084 R

DRAFTED BY EB/ORF/FSE:WARILEY:MEP

APPROVED BY EB - MR. KATZ

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EUR/CAN - DHOLTON

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FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA IMMEDIATE

C O N F I D E N T I A L STATE 008370

E.O. 11652: N/A

TAGS: ENRG

SUBJECT: BRITISH COLUMBIA NATURAL GAS CURTAILMENTS
AND PRICE PROPOSAL

1. JOHN MCMILLIAN, PRESIDENT, NORTHWEST PIPELINE CO. (NWP)
DISCUSSED WITH DEPARTMENT:

- A) CURRENT BC NATURAL GAS SUPPLY CURTAILMENTS;
- B) LIKELY FUTURE PRODUCTION SHORTFALL; AND
- C) PROPOSED SHARP PRICE INCREASES BY BC GOVERNMENT.

2. MCMILLIAN REPORTED THAT DUE TO SEVERE WEATHER AND
PRODUCTION PROBLEMS, NWP CURRENTLY RECEIVING 400 MILLION
CUBIC FEET PER DAY (MMCFD) LESS THAN CONTRACTED AMOUNT OF
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800 MMCFD. HE ALSO EXPLAINED THAT MANY OPERATORS IN BC

WERE LOSING FROM 4 TO 5 CENTS PER THOUSAND CUBIC FEET (MCF) AS A RESULT OF THE CONFLICTING FEDERAL AND PROVINCIAL TAX POLICIES AND THAT ONE PRODUCER (MOBIL) HAD DECIDED THAT PRESENT SITUATION OFFERED NO FINANCIAL INCENTIVES TO OPERATE IN BC. MCMILLIAN FEARS NEXT WINTER'S CURTAILMENTS MAY REACH 500 MMCFD.

3. MCMILLIAN CITED RECENT ANNOUNCEMENT OF BC PREMIER DAVID BARRETT PROPOSING IMMEDIATE INCREASE IN NATURAL GAS EXPORT

PRICES TO 1.35 DOLLARS MCF RISING TO 1.93 DOLLARS MCF BY JANUARY 1, 1976. ACCORDING MCMILLIAN LAST INCREASE TO 1.00 DOLLAR MCF ALREADY MEANS 212 MILLION DOLLARS HIGHER ANNUAL COSTS TO PACIFIC NORTHWEST CUSTOMERS. PRICES AT 1.93 DOLLARS MCF WOULD ADD ANOTHER 440 MILLION DOLLARS TO U.S. BILL WITH ENORMOUS ADVERSE ECONOMIC IMPACT ON FOUR STATE AREA. (WE HAVE NOT CHECKED THESE FIGURES.)

4. AS WE UNDERSTAND BARRETT'S PROPOSAL, 1.93 DOLLARS MCF PRICE WOULD GENERATE 180 MILLION DOLLARS IN ADDITIONAL REVENUE WHICH WOULD BE SHARED EQUALLY BETWEEN BC GOVERNMENT, BC MUNICIPALITIES AND OTTAWA. PROPOSAL WOULD NOT INCREASE WELL-HEAD PRICE OF 22 CENTS MCF AND WITH PRESENT TAX STRUCTURE WOULD LIKELY INDUCE FALL IN PRODUCTION WITH ADDITIONAL CURTAILMENT OF EXPORTS TO U.S.

5. DEPT CONCERNED THAT INTENT OF OTTAWA TO PROVIDE INCENTIVES TO PRODUCERS VIA ADDITIONAL REVENUES GENERATED BY PRICE INCREASE TO 1.00 DOLLAR MCF ANNOUNCED SEPTEMBER 20, 1974 BY EMR MINISTER DONALD MACDONALD HAS BEEN SUBVERTED AND THAT FUTURE HOLDS PROSPECT OF HIGHER PRICES AND LESS NATURAL GAS FOR PACIFIC NORTHWEST BECAUSE OF UNRESOLVED FEDERAL/PROVINCIAL QUESTIONS.

6. SECRETARY HAS RECEIVED TELEGRAM FROM SENATORS JACKSON AND MAGNUSON WHICH HAS BEEN RELEASED TO PRESS. TELEGRAM CONCLUDES ON NOTE "WE DESIRE TO MAINTAIN THE HISTORICAL SPIRIT OF COOPERATION BETWEEN THE UNITED STATES AND CANADA, BUT THE DISCRIMINATORY ACTION BY CANADIAN
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AUTHORITIES MUST BE ENDED. WE URGE YOU TO REVIEW EXISTING ECONOMIC AGREEMENTS WITH CANADA AND TO MARSHALL ALL DIPLOMATIC AND ECONOMIC RESOURCES TO STOP THE UNFAIR TREATMENT OF U.S. NATURAL GAS CONSUMERS." WE UNDERSTAND THAT GOVERNOR EVANS AND WASHINGTON STATE MEMBERS OF HOUSE OF REPRESENTATIVES MAY BE SIMILARLY APPROACHING DEPT.

7. WE UNDERSTAND THAT BARRETT WILL BE MEETING AFTERNOON OF JANUARY 14 WITH ACTING PRIME MINISTER DRURY. EMBASSY REQUESTED TO MAKE APPROACH AT HIGHEST LEVELS REACHABLE IN EMR, NEB AND EXTAFF TO EXPRESS OUR CONCERN REGARDING CURRENT AND POTENTIAL CURTAILMENT OF NATURAL GAS EXPORTS TO THE PACIFIC NORTHWEST AS WELL AS THE IMPACT THE FURTHER INCREASE IN PRICE PROPOSED BY BARRETT WOULD HAVE ON THE ALREADY DEPRESSED PACIFIC NORTHWEST ECONOMIES. EMBASSY SHOULD REFER TO STATEMENTS MADE BY DONALD MACDONALD ON SEPTEMBER 20, 1974 THAT

"IT WILL BE THE POLICY OF THE GOVERNMENT TO ASSURE THAT THESE ADDITIONAL REVENUES (FROM INCREASE OF 1.00 DOLLAR MCF) SHOULD BE DISTRIBUTED TO THE PRODUCERS OF NATURAL GAS." AND HIS EXPRESSION OF HOPE THAT ADDITIONAL REVENUES ACCRUING TO BRITISH COLUMBIA PETROLEUM CORP. WOULD "MATERIALLY ASSIST IN FACILITATING AND ACCELERATING ARRANGEMENTS FOR ALTERNATIVE AND ADDITIONAL SUPPLIES." INGERSOLL

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